

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

8 OCTOBER 2016
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 2 pages with 4 questions only.
2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Question 1

- a) First National Bank of Bannerville has posted interest revenues of RM63 million and interest costs from all of its borrowings of RM42 million. If this bank possesses RM700 million in total earning assets, what is First National's net interest margin? Suppose the bank's interest revenues and interest costs double, while its earning assets increase by 50 percent. What will happen to its net interest margin?

Why a financial institution wishes to protect themselves from adverse movements in interest rates?

(12 marks)

- b) Baron National Bank has structured its investment portfolio, which extends out to four-year maturities, so that it holds about RM11 million each in one-year, two-year, three-year, and four-year securities. In contrast, Dunstreet National Bank holds RM36 million in one- and two-year securities and about RM30 million in 8- to 10-year maturities. What maturity strategy is each bank following and why they adopted such strategy? Please show the diagram for each strategy used by each bank.

(13 marks)

Question 2

Noble Bank has forecast its checkable deposits, time and savings deposits, and commercial and household loans over the next eight months as shown below. Use the sources and uses of funds approach to indicate which months are likely to result in liquidity deficits and which in liquidity surpluses if these forecasts materialized. Show your workings for total deposits, total loans and liquidity deficit or surplus for each month.

Month	Checkable Deposits (RM million)	Time and Savings Deposits (RM million)	Commercial Loans (RM million)	Consumer Loans (RM million)
January	120	550	650	160
February	115	500	650	230
March	100	500	700	210
April	90	485	700	175
May	105	465	710	160
June	80	490	700	200
July	90	525	700	175
August	100	515	675	150

(25 marks)

Continued...

Question 3

- a) Suppose a banker from PROBANK tells you that his bank, for the last year had total interest expenses on all borrowings of RM12 million and noninterest expenses of RM5 million, while interest income from earning assets totaled RM16 million and noninterest revenues totaled RM2 million.

Suppose further that assets amounted to RM480 million, of which earning assets represented 85 percent of that total while total interest-bearing liabilities amounted to 75 percent of total assets. Based on this information, calculate:

- i) PROBANK net interest and noninterest margins. (4 marks)
 - ii) PROBANK earnings base and earnings spread. (5 marks)
- b) Provide eight (8) steps the bank should consider in solving a problematic loan. (16 marks)

Question 4

- a) Explain in detail the essential differences as the following:
- (i) working capital loans (2 marks)
 - (ii) open credit lines (2 marks)
 - (iii) asset-based loans (2 marks)
 - (iv) term loans (2 marks)
 - (v) revolving credit lines (2 marks)
 - (vi) interim financing (2 marks)
- b) In respond to business customer seeking a loan, a bank will evaluate certain factors before granting them the loan. From what aspects of business firm's financial statement do bank loan officers and credit analyst examine? Provide example in terms of a ratio for each assessment. (13 marks)

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